# Q&A at Investor Meeting
# Financial Results for the Three Months Ended June 2023

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| Date: | Thursday, August 3, 2023,16:30 to17:30 | |
| Presenters: | Yuzo Nouchi: | Executive Vice President, Chief Financial Officer |
| | Kenji Kobayashi: | Senior Vice President,<br>Chief Stakeholder Engagement Officer |
| | Yoshihiro Shimazu: | Senior Vice President, General Manager,<br>Corporate Accounting Department |

＜Q&A＞

**Q. At the year-end investor meeting, I believe you said that with the progress of the value-added cyclical growth model, earnings in the non-resource groups for the fiscal year ending March 31, 2024 could exceed ¥480.0 billion. Am I correct in understanding that the gains on sale of shares of an affiliated company within the Food Industry Group recorded in the first quarter are not part of that ¥480.0 billion? Do you expect asset sales to continue accelerating under the value-added cyclical growth model?**

A.

- The recent sale was indeed achieved by considering a variety of options as part of efforts to advance the value-added cyclical growth model, and as a result of negotiations with business partners going well. We view the sale as reaping the fruits of our efforts in the form of gains on sale in a business that until now has contributed to equity earnings. We factored this into the consolidated net income forecast of ¥920.0 billion from the start, and the gains on sale were approximately as expected.
- We hold progress review meetings to promote the value-added cyclical growth model. We have touched on this a bit at previous investor meetings, but these review meetings have two main purposes. The first is to further enhance the earnings power of existing businesses. The second is to consider how to address businesses that are profitable but not providing the expected level of returns, including the possibility of selling them. The strong progress toward annual targets in the first quarter reflects the one-off gains that were factored in from the start, but results were particularly strong as a result of our efforts to reinforce the earnings power of a wide range of businesses. The exact timing at which capital gains from asset replacement are recorded may vary, as we seek the optimal moment and have to consider and work with our partners.

**Q. Are there any updates you can disclose on the sale of the two BMA coal mines?**

A.

- The process to consider divestment is still ongoing and we have not yet made any concrete decisions, so there is no progress we can disclose at this time.
- MC has continued to pursue a resilient portfolio through proactive asset replacement, not limited to metallurgical coal. This divestment process is a part of these efforts.

**Q. In the Automotive & Mobility Group's Isuzu-related business in Thailand, when formulating the forecast at the start of the year, I believe you expected the per-unit margin to drop, reflecting the unfavorable market environment. Looking at the results for April to June, while the number of units sold decreased, the group seems to have made stronger-than-planned progress toward its revenue target for the year. Could you update us on the current status of this business?**

A.

- In the first quarter, overall motor vehicle demand in Thailand dropped about 3% year over year. However, the pickup segment, which accounts for about 40% of the total Thai automobile market, declined by more than 20% due to stricter financing screening as a result of an increase in loan defaults in the country. Reflecting this significant decline in the pickup segment, Isuzu's pickup sales volume also declined more than 20% year over year.
- Nevertheless, the impact of the decrease in sales volume was cancelled out by such positive factors as increased profitability due to improvement in the model mix and the effect of the weak yen and strong baht. In the commercial vehicle segment, we have maintained a high market share thanks to active offline events and other initiatives, as well as the introduction of preferential interest rate campaigns as needed.

**Q. In the first quarter, adjusted free cash flows came to an inflow of more than ¥400.0 billion, due in part to gains on sale of assets, and after the impact of foreign exchange the investment leverage ratio fell to 26.9%. Could you update us on how you will use cash flows? For instance, will you correct the investment leverage ratio to an appropriate level through additional shareholder returns during the current midterm strategy? Do you expect the amount of investment during the current midterm strategy to exceed the planned ¥3 trillion?**

A.

- As you point out, incoming cash flows have been strong. However, our fundamental policy for shareholder returns is to maintain progressive dividends, increasing dividends in response to sustainable earnings growth, and we consider the total payout ratio when deciding whether to pay additional returns. For the current fiscal year, as we said at the start of the year, we consider a total payout ratio of about 40% as one target.

- We have not revised the forecast for the full fiscal year, but given the strong first quarter performance, we expect revenues to be higher than originally planned. We will have to keep a close eye on conditions moving forward, but we aim to provide a total payout ratio of around 40%, as promised.
- The investment leverage ratio has fallen due to the weakness of the yen and the increase in equity. We aim for it to be in the range of about 40–50% over the medium to long term, but not necessarily in each quarter. Using the total payout ratio as one guidepost, we will monitor cash flows to flexibly consider shareholder returns going forward.
- Including both investments already executed and those planned, our investment pipeline for the duration of the current midterm strategy totals more than ¥3 trillion, but as we go forward, we will carefully select projects for investment based on their individual profitability. However, we will need to be somewhat flexible, as these projects also involve outside partners, so we are not planning to advance investment with undue focus on the ¥3 trillion figure.

**Q. Underlying operating cash flows fell ¥118.0 billion year on year, while net income fell ¥216.3 billion. Was there some particular improvement factor that led to the decrease in underlying operating cash flows being narrower than the decrease in net income? Was the increase in dividend income from equity-method affiliates due to structural changes, or is it just that the strong profit of operating companies in the previous fiscal year showed up as dividend income in the first quarter?**

A.

- The biggest factor is the previous year's capital gains from the sale of MC-UBSR, which were counted as investing cash flows, not underlying operating cash flows. Another factor is that dividend income from equity-method affiliates exceeded the decrease in equity earnings.
- Dividend income does not necessarily lead to changes in revenue showing up later than changes in performance. We are not just now suddenly collecting dividends all at once after not doing so before. Rather, we have been putting considerable effort into collecting dividends from equity-method affiliates since the previous midterm strategy. When dealing with consolidated subsidiaries, the parent can decide when to collect dividends as a shareholder. With equity-method affiliates, however, we must, of course, work with outside partners, so we cannot simply increase dividends when and how we please. For this reason, we have internally been constantly emphasizing the

importance of collecting profits through cash dividends, and our business groups have been negotiating with investees and affiliates to raise dividend payout ratios.

- We cannot say for certain that things will remain this way going forward, but we can say with confidence that our internal awareness of collecting cash from equity method affiliates is much higher than it was a few years ago.

**Q. You listed the concentration of first-quarter equity earnings in the LNG-related business as a factor behind the progress of earnings toward the annual target in the Natural Gas Group. What does that mean?**

A.

- The concentration of earnings in the first quarter this year is mainly due to the delay in the effects of high oil and gas prices in the second half of the previous fiscal year, causing them to be reflected in this year's first-quarter earnings. We factored this in when we formulated the forecast, so although the Natural Gas Group is already 34% to its annual target, this progress is as expected.

**Q. You explained that the strong progress toward the annual earnings target was due in part to the first-quarter concentration of earnings in the Natural Gas Group and the Mineral Resources Group, and that the boost to first-quarter earnings from these was factored into the annual forecast. Could you tell us, then, which segments objectively saw higher than planned performance? Were gains on sale from asset replacements on par with plans?**

A.

- We planned for first-quarter earnings to exceed the standard benchmark of 25% progress toward the annual target. However, we expected progress of around 30%, so the actual progress of 35% exceeded even that considerably.
- Of course, this was only the first quarter, so the economic environment or other factors could still cause changes going forward. In the current fiscal year, for example, the U.S. economy has not declined as much as we had initially feared, and we believe this is reflected in our results.
- In the resource sectors, we expected earnings in Natural Gas and Mineral Resources to be concentrated in the first quarter, so we regard progress in these segments as more or less on track. However, the Automotive & Mobility, Consumer Industry and Industrial Materials groups each saw higher than expected progress toward the annual targets.
- In addition, gains on sale from asset replacement have bolstered overall progress. Major items include gains of ¥36.9 billion from the sale of shares of an affiliated company in Food Industry and ¥13.8 billion from the sale of domestic investment property in Urban Development. Both of these were

factored into our plans.

**Q. Hearing your explanation of the progress of investment, it sounds like you are calmly and carefully assessing potential projects. Is the amount of investment clearly trending higher than planned for the current midterm strategy? Or is there no deliberate move, at least, to raise the amount of investment?**

A.

- We are not making investment decisions based solely on the numbers in our plan, but we are steadily advancing investment in future growth.
- From a medium- to long-term perspective, EX is an important theme, and in this and other areas, we are looking toward the future and advancing internal discussions about the importance of taking steps in the near term, even if they do not immediately yield revenues. We do not make investment decisions based just on numbers, and we maintain a constant awareness of pursuing high-quality investment opportunities.

**Q. In the past, you have said that the earnings of Eneco, in the Power Solution Group, are concentrated in the fourth quarter due to seasonal factors, but it made a strong contribution to earnings this quarter. Could you tell us how much of this was from one-off factors versus the other factors, and where you think this business is headed in terms of earnings for the fiscal year?**

A.

- Year over year, first quarter results were favorable due to improved wind conditions, improved profitability through operational optimization in supply-demand adjustment, and evaluation profit on sales positions.
- Compared with when we acquired Eneco, as a result of the Russia-Ukraine situation, electricity prices are more volatile, and conditions have changed. The seasonal patterns seen in the past are not guaranteed to continue going forward. Though not as strong as this year, business performance was strong in the first quarter of last year, too, but then struggled in the second quarter due to poor wind conditions. We cannot say for certain that similar conditions will not arise in the second quarter and beyond this year, so we are watching performance carefully.

**Q. Royalties were increased in Queensland in July 2022, creating a difference in conditions year over year. Please tell us how much of an impact royalties had in the metallurgical coal business in the first quarter. Has the impact of royalties been as expected, compared with your initial forecast?**

A.

- Yes, additional royalties were imposed mainly on high-end metallurgical coal from July 2022. The rate of royalties on coal selling for less than A$150/ton is unchanged. However, royalties increased for higher price ranges, such as coal selling for over A$175/ton, A$225/ton or A$300/ton, rising to as high as 40% at the high end.

- The new rates were applied in the first quarter of the current fiscal year, but the bigger factor was that in the first quarter of the previous year, metallurgical coal reached the unprecedented high of US$447/ton on price indexes. In contrast, comparable prices averaged US$243/ton this quarter. While this remains in a highly taxed price range, it is less so than last year.
- The impact has been mostly within the scope that we anticipated.

**Q. In the copper business, I would particularly like to hear about current conditions and the outlook for Quellaveco. Please also tell us about current conditions and the outlook for Anglo American Sur, including when you expect to see recovery from the decline in ore quality.**

A.

- The copper business contributed ¥14.0 billion in earnings in the first quarter. Market prices for copper are down year over year, but while production had yet to start at Quellaveco in the first quarter of the previous year, this year Quellaveco contributed to earnings; of the ¥14.0 billion in earnings from the copper business, ¥7.7 billion was from Quellaveco. The ramp up of Quellaveco's operations is progressing smoothly, so we expect it to contribute to revenues considerably going forward.
- We recorded additional impairment losses on Anglo American Sur in the fourth quarter of the previous fiscal year. However, this was due to factors specific to the undeveloped areas of that project, and not because there were any problems with its operations. In the existing mine, as we continue development, the copper content (the grade) of the ore has dropped slightly. First quarter results were also impacted by cost increases, but we expect to see recovery going forward.

**Q. Cermaq saw earnings decrease year over year and recorded a loss in the first quarter. How are things currently going, and what is the outlook for Cermaq?**

A.

- We recorded an equity loss from Cermaq of ¥3.0 billion in the first quarter, a decline in ¥8.4 billion year over year. This was mainly caused by three factors: 1. Increased production cost due to higher feed prices, 2. A decrease in sales volume due to early harvesting in order to counter disease issues, and 3. The recording, in the first quarter, of a newly introduced resource tax in Norway for January to June 2023, including retroactive application.
- While earnings fell year over year, Cermaq has entered feed purchasing agreements on a global basis to reduce procurement costs and has taken

appropriate steps to combat disease. Operations in both Norway and Chile are among the highest in the global salmon farming industry in terms of productivity and profitability.

- Looking at the forecast for the full year, the increase in production costs from rising feed prices was factored in, and sales are expected to rise as seasonal demand increases from the second quarter onward. As such, we currently expect revenues for the year to be as planned.
- The main factor in the first quarter equity loss of ¥3.0 billion was the discrepancy between realized gains and unrealized losses on biological assets. In the first quarter, realized gains of ¥4.1 billion were surpassed by unrealized losses on biological assets of ¥7.1 billion, leading to a net loss. Evaluations of biological assets are based on adult fish weighing four kilograms or more, but particularly in Norway, the individual fish tend to lose weight around June, reducing the number of fish included in the evaluation.

**Q. What impact will China's economy have going forward? Year over year, do you not expect it to matter much, or do you think that stagnation in demand will affect market prices for metallurgical coal from the second quarter onward? How much of a risk factor do you think this will be?**

A.

- The outlook for the Chinese economy is severe, considering the government's GDP target of around 5%, down from the previous year's 5.5%, and especially with the ongoing stagnation in real estate. The impact going forward will likely depend on the extent of additional economic stimulus measures.
- That said, our exposure to China is very minimal, and we believe there will be almost no instances of those businesses that are exposed being directly impacted in a way that leads to a decrease in revenues.
- On the other hand, there is a chance that China's purchasing power, its impact on the global economy, and especially the slump in steelmaking businesses due to domestic real estate conditions will negatively affect resource prices, so we will keep a close watch.
- China has been lifting its restrictions on Australian coal imports, but while they were in place, almost all of the sales that would have gone to China were shifted to other regions. This is another aspect indicating that our business will not be impacted directly. That said, the slowdown of China's economy may have considerable and wide-ranging impacts, so we will monitor the situation closely.